



Highlights of [GAO-08-327](#), a report to congressional committees

## Why GAO Did This Study

Estimated to reach \$15 billion by 2015, the Department of Defense's (DOD) prescription drug spending has been a growing concern for the federal government. The John Warner National Defense Authorization Act (NDAA) for Fiscal Year 2007 required GAO to examine DOD's pharmacy benefits program. Specifically, as discussed with the committees of jurisdiction, GAO examined DOD's prescription drug spending trends from fiscal years 2000 through 2006 and DOD's key efforts to limit its prescription drug spending. To conduct this work, GAO analyzed DOD's data on spending trends, including trends in beneficiary pharmacy use. GAO also assessed DOD's cost avoidance data and the agency's efforts to limit spending through its uniform formulary, which is a list of preferred drugs available to all beneficiaries. GAO interviewed DOD officials about these and other efforts to limit spending.

## What GAO Recommends

GAO recommends that DOD (1) monitor the impact of federal pricing arrangements for drugs dispensed at retail pharmacies along with ongoing efforts to limit pharmacy spending to determine the extent to which they reduce the growth in retail pharmacy spending and (2) identify, implement, and monitor other efforts, as needed, to reduce the growth in retail pharmacy spending. In its comments, DOD concurred with GAO's recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-327](#). For more information, contact John E. Dicken at (202) 512-7114 or [dickenj@gao.gov](mailto:dickenj@gao.gov).

## DOD PHARMACY PROGRAM

### Continued Efforts Needed to Reduce Growth in Spending at Retail Pharmacies

#### What GAO Found

Collectively, DOD's drug spending at retail pharmacies, military treatment facilities (MTF), and the TRICARE Mail Order Pharmacy (TMOP) more than tripled from \$1.6 billion in fiscal year 2000 to \$6.2 billion in fiscal year 2006. Retail pharmacy spending drove most of this increase, rising almost ninefold from \$455 million to \$3.9 billion and growing from 29 percent of overall drug spending to 63 percent. The growth in retail spending reflects the fact that federal pricing arrangements, which generally result in prices lower than retail prices, were not applied to drugs dispensed at retail pharmacies during this time. In addition, beneficiaries' increased use of retail pharmacies over the less costly options of MTFs or the TMOP exacerbated the effect of these higher prices. For example, 2 million beneficiaries used only retail pharmacies in fiscal year 2006—double the number in fiscal year 2002. However, future growth in retail pharmacy spending may slow as the NDAA for Fiscal Year 2008 now requires that federal pricing arrangements be applied to drugs dispensed at retail pharmacies.

DOD's key efforts to limit its prescription drug spending have included its use of the uniform formulary and beneficiary outreach to encourage use of the TMOP. By leveraging its uniform formulary, which was implemented in fiscal year 2005, the agency avoided about \$447 million in drug costs in fiscal year 2006 and \$916 million in fiscal year 2007, according to DOD's data. In exchange for formulary placement, manufacturers can offer DOD prices below those otherwise available through federal pricing arrangements, which at the time of our review were applied only to drugs dispensed at MTFs and the TMOP. To compensate, in August 2006, DOD began obtaining voluntary manufacturer rebates for formulary drugs dispensed at retail network pharmacies. As of October 1, 2007, DOD collected about \$28 million in rebates for fiscal year 2007. Also in 2006, DOD began beneficiary outreach—through quarterly newsletters and other materials—emphasizing the TMOP's convenience and cost savings. To help beneficiaries transfer their prescriptions to the TMOP, DOD launched the Member Choice Center in August 2007 and plans to target related outreach toward beneficiaries who frequently obtain high-cost drugs from retail pharmacies.

DOD's ongoing efforts are important to limit future prescription drug spending. In addition, DOD has the recommendations of a congressionally mandated task force to consider—that copayment policies be changed to encourage beneficiaries to purchase preferred drugs from cost-effective sources. The agency is also undertaking a fundamental reform—the NDAA for Fiscal Year 2008 requirement to apply federal pricing arrangements to drugs dispensed at retail pharmacies—that could have an even greater impact on spending. DOD will need to carefully monitor the impact of this new requirement along with its ongoing efforts in order to assess the progress in controlling spending. DOD will also need to determine what types of additional efforts, if any, will be necessary to ensure the fiscal sustainability of its pharmacy benefits program.